

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 PA-02 PRS-01 /110 W
-----060601Z 087709 /12

P R 060525Z JAN 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4539
TREASURY DEPARTMENT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 0120

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF DEC
30-JAN 5

1. SUMMARY: FUKUDA CABINET APPROVES MIKI-DESIGNED FY 1976
SUPPLEMENTARY BUDGET AND ACCELERATES GOVT LENDING TO ENCOURAGE
RESIDENTIAL CONSTRUCTION. FIN MINISTRY PREPARES TO SURFACE
PROPOSALS FOR 16-17 PERCENT INCREASES IN FY 1977 BUDGET
OUTLAYS BUT BACKS AWAY FROM MAJOR TAX CUT. THESE MEASURES,
ALONG WITH SOME EASING OF MONETARY POLICY, SEEN AS YIELDING
REAL GROWTH IN JAPAN IN FY 1977 OF 6.6-6.8 PERCENT. FOR
FIRST TIME THIS YEAR, JAPAN'S OFFICIAL FOREIGN EXCHANGE RESERVES
DECLINE IN DEC, BY \$121 MIL. END SUMMARY.

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2. ON JAN 5, NEWLY FORMED FUKUDA CABINET APPROVED SUPPLE-
MENTARY BUDGET FOR FISCAL YEAR ENDING MARCH 1977
UNCHANGED FROM PROPOSALS ENDORSED BY FORMER MIKI CABINET
LAST DEC 21 (TOKYO 18762). ALSO ON JAN 5, CABINET
MINISTERS DECIDED TO INVITE APPLICATIONS IMMEDIATELY FOR
GOV-ASSISTED HOUSING LOANS FOR 30,000 UNITS FROM NEXT FISCAL
YEAR BUDGET. THIS LENDING IS ADDITIONAL TO 20,000 UNIT

AUTHORIZATION ANNOUNCED IN NOV STIMULUS PACKAGE, BRINGING LEVEL OF AUTHORIZATIONS FOR FY 1976 TO 264,000 UNITS, AS COMPARED WITH 241,000 UNITS IN FY 1975.

3. MOF DRAFTING OF NEXT YEAR'S BUDGET IS IN THE FINAL STAGES. NEW FINMIN BO SAID MOF WILL ON JAN 13 PRESENT ITS DRAFT FOR JFY 1977 BUDGET STARTING IN APR 1977. AFTER ANY LAST GASP CHALLENGES TO MOF DESIGNS, GOJ BUDGET DRAFT FOR NEXT FISCAL YEAR TO BE FINALIZED AT JAN 20 CABINET MINISTERS' MEETING FOR TRANSMITTAL TO DIET. PROPOSED GENERAL ACCOUNT BUDGET AUTHORIZATIONS FOR JFY 1977 ARE EXPECTED TO BE AROUND 28.4 TRILLION YEN (\$98 BIL AT 290 YEN PER DOL), UP 17 PERCENT OVER INITIAL SPENDING AUTHORIZATIONS FOR THIS FISCAL YEAR. FLIP (FISCAL LOAN AND INVESTMENT PROGRAM) AUTHORIZATIONS ARE LIKELY TO BE AROUND 12.3 TRILLION YEN (\$42 BIL), UP 16 PERCENT OVER THE INITIAL FY 1976 AUTHORIZATIONS. WORK ON NEXT YEAR'S TAX REVISIONS IS ALSO PROGRESSING. TWO INFLUENTIAL TAX DELIBERATION COUNCILS DESIGNATED BY LDP AND CABINET ARE EXPECTED TO PRESENT THEIR PROPOSALS AROUND JAN 10. BASED ON THESE RECOMMENDATIONS, MOT OUTLINE FOR NEXT YEAR'S TAX REVISIONS IS SCHEDULED TO BE PRESENTED ON JAN 13, AND THEN TO BE SENT TO THE DIET ALONG WITH JFY 1977 BUDGET DRAFT. PERSONAL INCOME TAX CUT FOR NEXT FISCAL YEAR IS LIKELY TO BE A MINI-TAX CUT OF AROUND 300 BIL YEN. ALTHOUGH POSSIBILITIES OF LARGER INCOME TAX CUT CANNOT BE RULED OUT IN THE CHANGED POLITICAL ENVIRONMENT, FINANCE MINISTER BO IS REPORTED TO HAVE TOLD CABINET JAN 5 THAT NO MAJOR INCOME TAX CUTS WOULD BE MADE AT THIS JUNCTURE. BO ALSO INDICATED THAT THE POLITICAL SENSITIVE RATIO OF GOVT UNCLASSIFIED

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BOND ISSUES TO EXPENDITURE WOULD BE KEPT AT NO MORE THAN 30 PERCENT, WHICH, WHILE SOUNDING FIRM, GIVES HIM STATISTICALLY SOME ROOM FOR THE LARGER BUDGET DEFICIT IN FY 1977 WHICH MOST OBSERVERS NOW EXPECT.

4. RECENT PRESS REPORTS HAVE DEVOTED CONSIDERABLE ATTENTION TO USUAL CONSULTATIONS UNDER WAY BETWEEN THE FINANCE MINISTRY, THE ECONOMIC PLANNING AGENCY AND THE MINISTRY OF INTL TRADE AND INDUSTRY (MITI) TO FINALIZE THE JAPANESE GOVT'S ECONOMIC GROWTH AND PRICE TARGETS FOR FY 1977. ACCORDING TO THSE REPORTS, THE EPA HAD INITIALLY FIXED ON A REAL GROWTH TARGET OF 6.5 PERCENT FOR FISCAL 1977, BUT AFTER PRE-LIMINARY CONSULTATIONS WITH MOF AND MITI ABOUT GOVT SPENDING PLANS THE AGENCY REVISED ITS GNP PROJECTION TO SHOW 6.7 PERCENT GROWTH NEXT FISCAL YEAR. THE EPA REPORTEDLY CHANGED ITS INITIAL 6.5 PERCENT FIGURE BECAUSE DISCUSSION

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INDICATED THE NEED TO INCORPORATE HIGHER PROJECTIONS FOR
GOJ SPENDING FOR PUBLIC WORKS IN JFY 1977, SNICE PM FUKUDA
HAS INDICATED HE INTENDS TO EMPHASIZE EXPANSION OF SUCH SPEND-
ING IN ORDER TO STIMULATE THE RECOVERY. PRESS REPORTS ALSO
SUGGEST THE OFFICIAL GOJ TARGET MIGHT COME UNDER LDP
PRESSURE FOR A HIGHER GROWTH RATE, BUT THAT THE EPA WANTS
TO SET THE TARGET AT A MAXIMUM OF 6.8 PERCENT. IN ANY CASE,
THE FISCAL 1977 BUDGET SCHEDULED FOR CABINET APPROVAL JAN
20 IS REPORTEDLY BEING DRAFTED ON THE BASIS OF A 6.7
GROWTH FIGURE, ALTHOUGH EXPENDITURES FOR PUBLIC WORKS
PROEJCTS CURRENTLY ASSUMED TO INCREASE BY 18 PERCENT OVER
PRIOR YEAR LEVEL, COULD BE REVISED FURTHER UPWARD. IN
ADDITION TO PUBLIC WORKS, PRIVATE PLANT AND EQUIPMENT
INVESTMENT IS EXPECTED TO HELP BOOST THE ECONOMY, WITH A
SLIGHTLY LESS THAN 8 PERCENT REAL INCREASE REPORTEDLY
PROJECTED BY GOJ FOR JFY 1977, MORE THAN DOUBLE THE MODEST 3.5
PERCENT ADVANCE LIKELY TO BE REALIZED THIS FISCAL YEAR. REAL
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PRIVATE CONSUMPTION, HOWEVER, IS PROJECTED TO INCREASE AT A SLOWER
PACE THAN GNP AS A WHOLE,; WITH A 6 PERCENT GAIN EXPECTED IN

FISCAL 1977. THESE REAL GROWTH PROJECTIONS REPORTEDLY REFLECT TWO CRITICAL ASSUMPTIONS BY GOJ OFFICIALS: THAT INFLATION IN FISCAL 1977 WILL BE SLIGHTLY LESS THAN 8 PERCENT (IN TERMS OF CPI) AND THAT THE BOJ DISCOUNT RATE WILL BE REDUCED BY 0.25 - 0.5 PERCENT EARLY IN THIS CALENDAR YEAR.

5. JAPAN'S OFFICIAL RESERVES DECLINED IN DEC BY \$121 MIL, RECORDING FIRST DECLINE IN YEAR. THUS, AT YEAR-END JAPAN'S OFFICIAL RESERVES AMOUNTED TO \$16,604 MIL, AS COMPARED WITH \$12,815 MIL A YEAR EARLIER. PRESS REPORTS PLAY UP ROLE OF BOJ DOLLAR SALES IN TOKYO FOREX MARKET IN ITS EFFORTS TO CALM DOWNWARD PRESSURES ON JAPANESE YEN, IN TURN ATTRIBUTED TO LDP SETBACKS IN LAST GENERAL ELECTION AND CRUDE OIL PRICE INCREASES. ACCORDING TO MOF PRELIMINARY INDICATIONS, JAPAN'S TRADE BALANCE IN DEC SHOWED (SEASONALLY) LARGE SURPLUS, WHILE LONG-TERM CAPITAL TRANSACTIONS REGISTERED LARGER NET OUTFLOWS THAN IN NOV.

6. IN DOMESTIC FINANCIAL MARKETS, CALL MONEY RATES WERE LOWERED DEC 31 BY 0.5 PERCENT, REFLECTING SEASONAL CREDIT EASE. CALL RATE (UNCONDITIONAL) NOW STANDS AT 7.0 PERCENT PER ANNUM, DOWN 0.5 PERCENT AS COMPARED WITH YEAR-END A YEAR AGO. BILL DISCOUNT RATE ALSO DROPPED 0.5 PERCENT, TO 7.5 PERCENT PER ANNUM, EFFECTIVE DEC 31. AVERAGE CALL MONEY RATE (JEI 178) WAS 7.111 PERCENT PER ANNUM FOR DEC 1976.

7. BOND YIELDS DECLINED IN DEC. YIELD ON NTT BONDS DROPPED SHARPLY BY NEARLY 0.3 PERCENTAGE POINTS (FROM NOV) TO 8.88 PERCENT PER ANNUM AT END OF DEC. TOKYO STOCK EXCHANGE SOURCE EXPLAINED SHARP DECLINE IN BOND YIELDS IN DEC WAS PRIMARILY A RESPONSE TO PRESS REPORTS PREDICTING OFFICIAL DISCOUNT RATE CUT IN EARLY PART OF THIS YEAR.

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BOND YIELDS, YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)

GOJ BONDS TELEPHONE AND CORPORATE
TELEGRAPH BONDS BONDS
(JEI 179)

OCT	8.769	9.098	8.919
NOV	8.797	9.171	8.954
DEC	8.731	8.883	8.788

8. PERFORMANCE OF MONETARY AGGREGATES (SEASONALLY ADJUSTED) MIXED IN NOV, AFTER SIZEABLE JUMP IN OCT. NARROWLY DEFINED MONEY SUPPLY, H1, ACTUALLY DECLINED IN NOV, AFTER REGISTERING SEVEN CONSECUTIVE MONTHLY INCREASES. BROADLY DEFINED MONEY SUPPLY, M2, CONTINUED TO GRO, BUT

SLOWLY. BANK LOANS AND DISCOUNTS RECORDED THE SMALLEST
MONTHLY INCREASE THUS FAR THIS YEAR.

MONEY AND CREDIT, S.A.

(BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

M1 M2 LOANS AND DISCOUNTS

(JEI 123) (JEI 126) (JEI 133)

SEP 52,319(1.0) 134,900(0.9) 95,088(1.0)

OCT 53,294(1.9) 136,994(1.6) 96,354(1.1)

NOV 53,040(MIN0.5) 137,515(0.4) 96,848(0.5)

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Message Attributes

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Copy: SINGLE
Sent Date: 06-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
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Executive Order: N/A
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Film Number: D770005-0455
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From: TOKYO
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ISecure: 1
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